

Public Affairs 864 – Health Policy and Policy Design

University of Wisconsin-Madison
Spring 2011

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Meeting Times: Thursdays 1:20pm-3:00pm
Meeting Place: EDUCATION L155
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Course Summary

This course is an introduction to the field of health policy with an emphasis on the economics of health care. Health care is an active field in policy analysis and health policy is growing in its importance at both the national and state levels. In the past decade, some of the most controversial policies considered by state and federal governments have involved issues that have been analyzed by health policy analysts. This class will provide an introduction to the health care system in the U.S. We will discuss some of the key concepts that health policy analysts use to study health care markets. Finally, we will apply these concepts to an analysis of the recently enacted Affordable Care Act (ACA).

Prerequisites

There are no formal prerequisites for PA 864, though a course in Microeconomics is strongly suggested. Students will also benefit from being comfortable with basic concepts in statistics.

Grading

The grade will be based on an in-class midterm (30%) and a final paper, due on the last day of class (40%). In addition, there will be three problem sets that will count toward the final grade (10%). Problem sets will be due *at the beginning* of class on the day they are due. Students may work in groups or individually on the problem sets, though each student in a group is required to turn in their own copy. Students who turn in a completed problem set on time will receive full credit for it. Performance on the examinations will no doubt be affected by the students' understanding of the material on the problem sets. The remainder of the course grade will be for participation in class discussions about the material and the readings (20%).

There will be no make-up midterm.

Reading Assignments

The text for the course is The Economics of Health and Health Care, 6th Edition by Folland, Goodman, and Stano (FGS). Students are welcome to use earlier editions of the textbook, as the text has changed very little with each edition. All other readings will be available at the class website.

INTRODUCTION1 Jan 20 **Overview of the Affordable Care Act****Recommended:**

- Wolfe B and B Haveman (2010) "US Health Care Reform: A Primer and an Assessment" CESifo DICE Report 3/2010
- White C (2010) "The Health Care Reform Legislation: An Overview" The Economists' Voice, December 2010.

2 Jan 27 **How economists think about health care****Required readings:**

- FGS, Ch. 1
- Weisbrod (1991) "The Health Care Quadrilemma: An Essay on Technological Change, Insurance, Quality of Care, and Cost Containment" *Journal of Economic Literature* 29(2): 523-552
- Fuchs (1996) "Economics, Values, and Health Care Reform," *American Economic Review* 86(1):1-24

Recommended readings:

- Iglehart (1999) "The American Health Care System: Expenditures," *New England Journal of Medicine*, 340(1):70-76.
- Arrow (1963) "Uncertainty and the Welfare Economics of Medical Care," *American Economic Review* 53(5): 941-973
- FGS, Ch.2 (highly recommended if your recollection of intermediate microeconomics is rusty).

COST OF HEALTH CARE3 Feb 3 **The demand for health care / Human capital and health**

Problem
Set #1
handed
out

Required readings:

- FGS, Ch. 4-5, 8 (4th edition) or Ch. 5-6, 9 (5th edition)
- FGS, Ch. 6 (4th edition) or Ch. 7 (5th edition)
- Smith (1999) "Healthy Bodies and Thick Wallets: The Dual Relationship between Health and Economic Status," *Journal of Economic Perspectives*, 13(2): 145-166.
- Grossman (1972) "On the Concept of Health Capital and the Demand for Health," *Journal of Political Economy*, 80(2): 223-255.
- Manning et al. (1987) "Health Insurance and the Demand for Medical Care: Evidence from a Randomized Experiment," *American Economic Review*, 77(3): 251-277.

Recommended readings:

- Case, Lubotsky, and Paxson (2003) "Economic Status and Health in Childhood: The Origins of the Gradient." *American Economic Review* 92(5): 1308-1334.

4 Feb 10 **Technological change and the price of health care****Required readings:**

- FGS, Ch. 16 (4th edition); Ch. 17 (5th edition)
- Newhouse (1992) "Medical Care Costs: How Much Welfare Loss?" *Journal of Economic Perspectives* 6(3): 3-21.
- Cutler and McClellan (2001) "Is Technological Change in Medicine Worth It?" *Health Affairs*, 20(5):11-29.
- Cutler *et al.* (1998) "Are Medical Prices Declining? Evidence from Heart Attack Treatments," *Quarterly Journal of Economics* 113:991-1024.

Recommended readings:

- Kingsley Davis (1956) "The Amazing Decline of Mortality in Underdeveloped Areas," *American Economic Review*, 46(2): 305-318.
- Mokyr (1993) "Technological Progress and the Decline of European Mortality" *American Economic Review* 83(2):324-330.

5 Feb 17 **The demand for health insurance**
Problem Set #1 due**Required readings:**

- FGS, Ch.11 (4th and 5th edition)
- Cutler and Zeckhauser (1999) "The Anatomy of Health Insurance" *NBER Working Paper* #7176

COVERAGE6 Feb 24 **Informational asymmetries and classification risk**
Problem Set #2 handed out**Required readings:**

- FGS, Ch. 9 (4th edition); Ch. 10 (5th edition)
- Akerlof (1970) "The Market for "Lemons": Quality Uncertainty and the Market Mechanism," *Quarterly Journal of Economics*, 84(3):488-500.
- Rothschild and Stiglitz (1976) "Equilibrium in Competitive Insurance Markets: An Essay on the Economics of Imperfect Information," *Quarterly Journal of Economics*, 90(4):629-649.
- Cochrane (1995) "Time-Consistent Health Insurance," *Journal of Political Economy*, 103(3):445-473.

Recommended readings:

- Crocker and Moran (2002) "Contracting with Limited Commitment: Evidence from Employment - Based Health Insurance Contracts," *mimeo*, University of Michigan Business School
- Gaynor, Haas-Wilson, and Vogt (2000) "Are Invisible Hands Good Hands? Moral Hazard, Competition, and the Second-Best in Health Care Markets" *Journal of Political Economy* 108(5): 992-1005

7 Mar 3 **Employer provision of health insurance****Required readings:**

- FGS, Ch. 7 (4th edition); Ch. 8 (5th edition)
- Gruber (1994) “The Incidence of Mandated Maternity Benefits,” *American Economic Review* 84(3):622-41.
- Abraham, DeLeire, and Royalty (2009) “Access to Health Insurance at Small Establishments: What Can We Learn from Analyzing Other Fringe Benefits” *Inquiry* 46: 253–273.

Recommended readings:

- Bundorf (2002) “Employee Demand for Health Insurance and Employer Health Plan Choices,” *Journal of Health Economics*, 21(1):65-88
- Abraham, Vogt, and Gaynor (2002) “Household Demand for Employer-Based Health Insurance,” *National Bureau of Economic Research Working Paper* #9144
- Feldman et al. (1989) “The Demand for Employment Based Health Insurance Plans,” *Journal of Human Resources*, 24(1):115-142.

8 Mar 10 **Midterm Exam (Covers all readings and materials presented in weeks 1-7)**Mar 17 **Spring Break**9 Mar 24 **Empirical Examinations of Insurance Markets / Managed Care****Required readings:**

- Cawley and Philipson (1999) “An Empirical Examination of Information Barriers to Trade in Insurance,” *American Economic Review*, 89(4):827-846
- FGS, Ch.12 (4th and 5th edition)
- Robinson (2001) “The End of Managed Care” *JAMA*. 285:2622-2628
- Enthoven, Schaffler, McMenamin (2001) “Consumer choice and the managed care backlash.” *Am J Law Med*.27(1):1-15

Recommended readings:

- Finkelstein and McGarry (2003) “Private Information and Its Effect on Market Equilibrium: New Evidence from Long-Term Care Insurance,” *NBER Working Paper* #9957
- Bhattacharya J, Goldman D, and Sood N, “Price Regulation in Secondary Insurance Markets” forthcoming in *Journal of Risk and Insurance* (2004)
- Jacobson and Pomfret “ERISA Litigation and Physician Autonomy”, *JAMA*. 283:921-926
- Iglehart JK. (2002) “Changing health insurance trends.” *N Engl J Med* 347(12):956-62

10 Mar 31 **Medicare, Medicaid, and CHIP**

Problem
Set #2
due

Required readings:

- FGS, Ch.20 (4th edition); Ch. 21 (5th edition)
- Iglehart (1999) “The American Health Care System: Medicaid,” *New England Journal of Medicine* 340(5): 403-8

- Iglehart (1999) "The American Health Care System: Medicare," *New England Journal of Medicine*, 340(4): 327-332.

Recommended readings:

- Yelowitz (1995) "The Medicaid Notch, Labor Supply, and Welfare Participation: Evidence from Eligibility Expansions" *Quarterly Journal of Economics*, 110(4):909-939.
- Iglehart JK. (2003) "The Dilemma of Medicaid" *N Engl J Med* 348(21):2140-8.

11 Apr 7 **NO CLASS**

12 Apr 14 **Uninsurance: causes and consequences**

Required readings:

- Farber and Levy (2000). "Recent Trends in Employer-Sponsored Health Insurance Coverage: Are Bad Jobs Getting Worse?" *Journal of Health Economics* 19(1):93-119.
- Congressional Budget Office (2003) How Many People Lack Health Insurance and For How Long? CBO: Washington, D.C.

Recommended readings:

- Levy and Meltzer (2001) "What Do We Really Know About Whether Health Insurance Affects Health?" in *Health Policy on the Uninsured: Setting the Agenda*, Catherine McLaughlin (ed.), Urban Institute Press.
- Levy and Deleire (2002) "What do People Buy When They Don't Buy Health Insurance?" *Working Paper*, Harris School, University of Chicago.
- Gruber and Washington (2003) "Subsidies to Employee Health Insurance Premiums and the Health Insurance Market." *National Bureau of Economic Research Working Paper #9567*

HEALTH BEHAVIOR

13 Apr 22 **Economic epidemiology**

Required readings:

- FGS, Ch. 23 (4th edition); Ch. 24 (5th edition)
- Philipson, (1996) "Private Vaccination and Public Health: An Empirical Examination for U.S. Measles," *Journal of Human Resources*, 31(3): 611-630.
- Philipson (1999) "Economic Epidemiology and Infectious Diseases," *NBER Working Paper #7037*.
- Goldman, Lakdawalla, and Sood (2004) "HIV Breakthroughs and Risky Sexual Behavior," *NBER Working Paper #10516*

Recommended readings:

- Ahituv et al. (1996) "The Responsiveness of the Demand for Condoms to the Local Prevalence of AIDS," *Journal of Human Resources*, 31(4):869-897.
- Philipson and Posner (1995) "A Theoretical and Empirical Investigation of

The Effects of Public Health Subsidies for STD Testing,” *Quarterly Journal of Economics*, 110(2):445-474.

- Geoffard and Philipson (1996) “Rational Epidemics and Their Public Control,” *International Economic Review*, 37(3):603-624.
- Geoffard and Philipson (1997) “Disease Eradication: Private versus Public Vaccination,” *American Economic Review*, 87(1): 222-230.
- Dow et al. (1995) “Disease Complementarities and the Evaluation of Public Health Interventions,” *NBER Working Paper #5216*.

14 Apr 29 **Obesity**

Required readings:

- Lakdawalla and Philipson (2002) “The Growth of Obesity and Technological Change: A Theoretical and Empirical Examination,” *NBER Working Paper #8946*
- Cutler, Glaeser, and Shapiro (2003) “Why Have Americans Become More Obese?” *NBER Working Paper #9446*
- Bhattacharya J and Bundorf K. “The Incidence of the Healthcare Costs of Obesity” *NBER Working Paper No. 11303 (2005)*

Recommended readings:

- Philipson and Posner (1999) “The Long Run Growth in Obesity as a Function of Technological Change,” *NBER Working Paper #7423*
- Shetty et al. (2010), “Changes in U.S. Hospitalization and Mortality Rates Following Smoking Bans.” *NBER Working Paper 14790*.

15 May 6 **The regulation of health insurance and of care markets / The ACA**

Required readings:

- FGS, Ch.17, 18, 19 (4th edition); Ch. 18, 19, 20 (5th edition)
- Other readings TBD

Recommended readings:

- Cutler (2002) “Health Care and the Public Sector” *NBER Working Paper #8802*
- Peltzman (1975) “The Effects of Automobile Safety Regulation” *Journal of Political Economy* 83(4):677-726.
- Peltzman (1973) “An Evaluation of Consumer Protection Legislation” *Journal of Political Economy* 81(5):1049-1091.